
Exploring Variable-Rate Gas Tax Design Options for Louisiana

Presentation to the Louisiana Governor's Task Force on
Transportation Infrastructure Investment

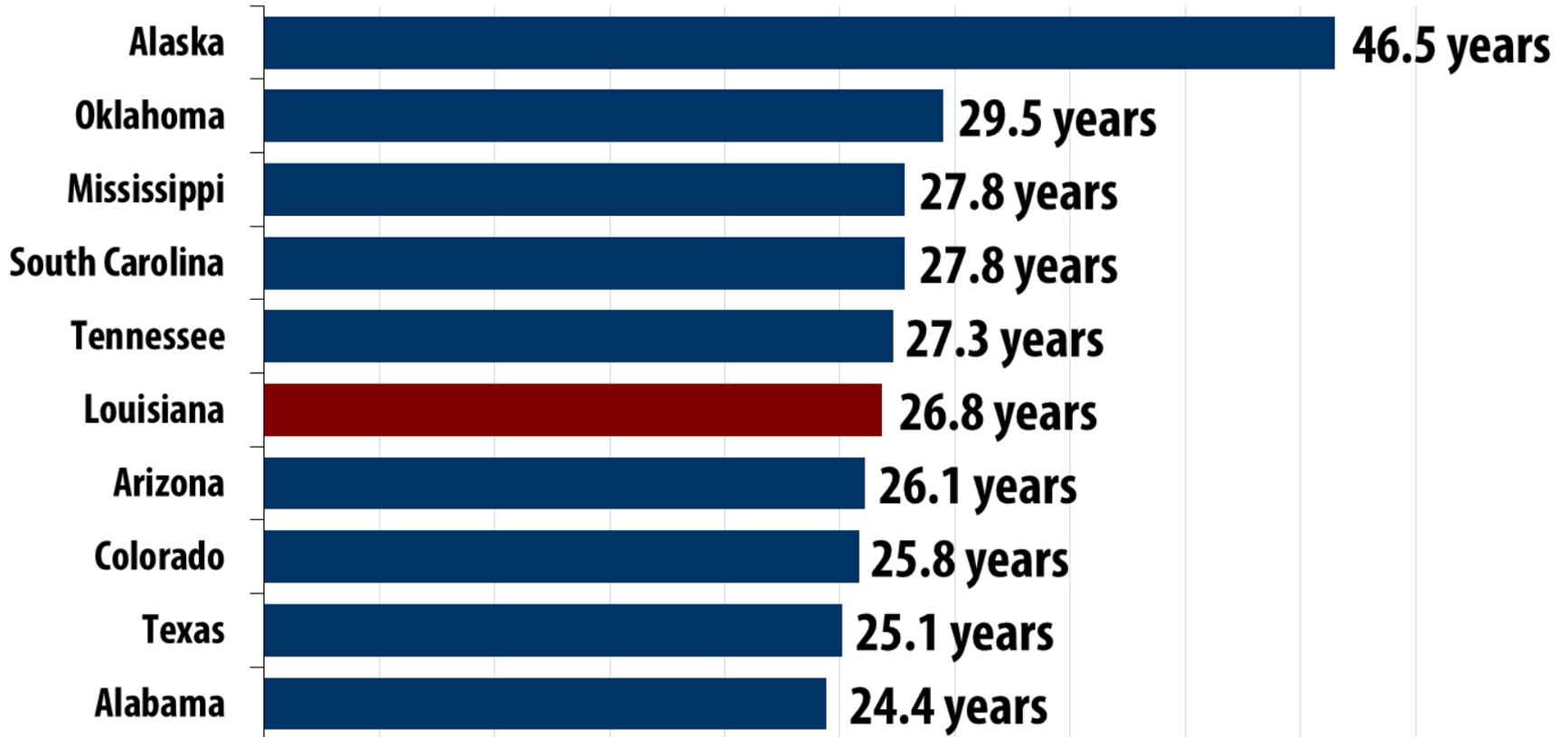
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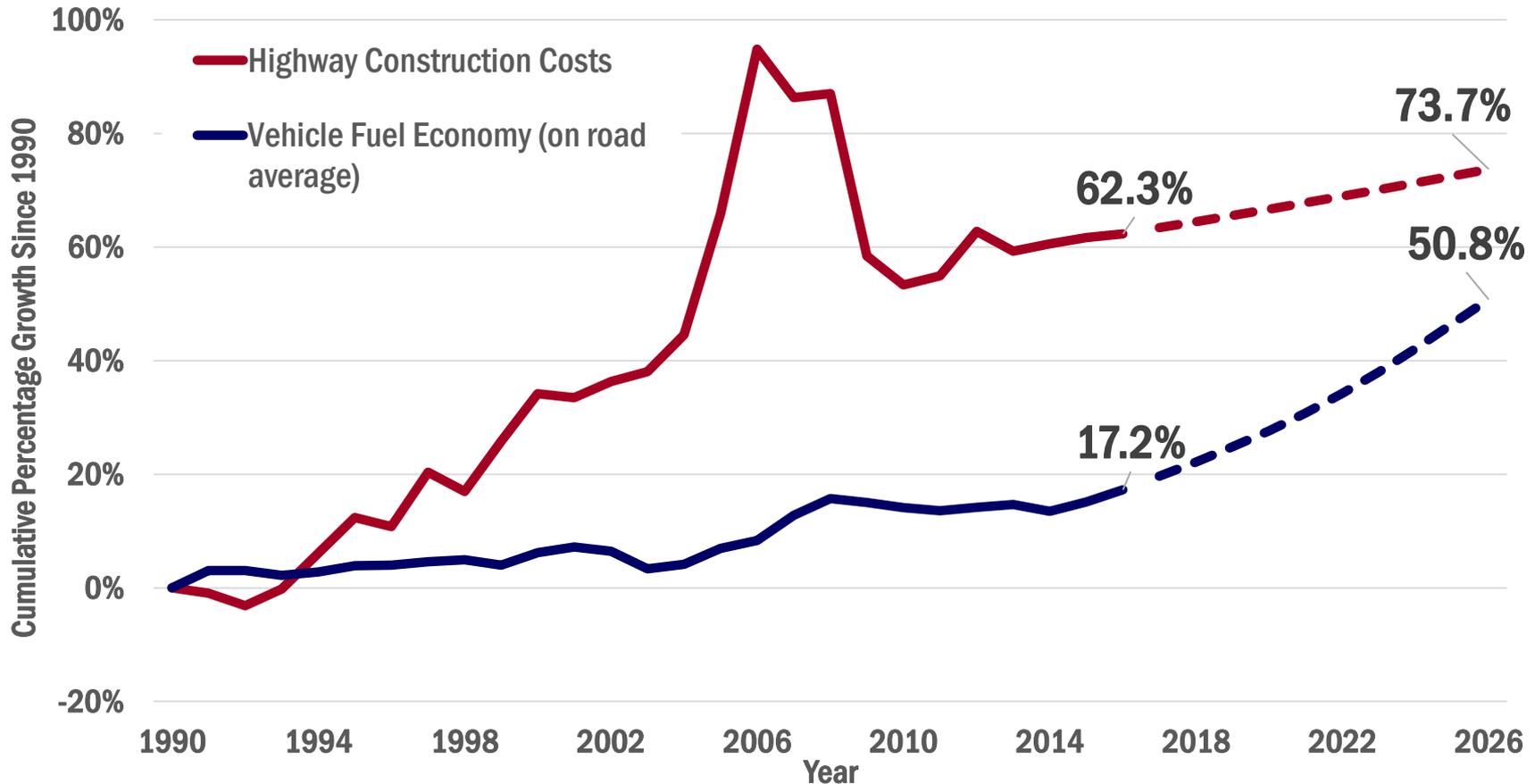
Only Five States Have Waited Longer Than Louisiana Since Last Updating Their Gas Tax Rates

Years Since Last Gasoline Tax Increase as of November 1, 2016



Source: Institute on Taxation and Economic Policy (ITEP)

Trends in Construction Cost Growth and Vehicle Fuel Economy Since 1990



Institute on Taxation and Economic Policy, August 2016

Variable-Rate Fuel Tax Reforms Since 2013

Implemented New Variable-Rate Tax

1. Maryland (2013)
2. Pennsylvania (2013)
3. Rhode Island (2014)
4. Utah (2015)
5. Virginia (2013)
6. District of Columbia (2013)

Reformed Existing Variable-Rate Tax

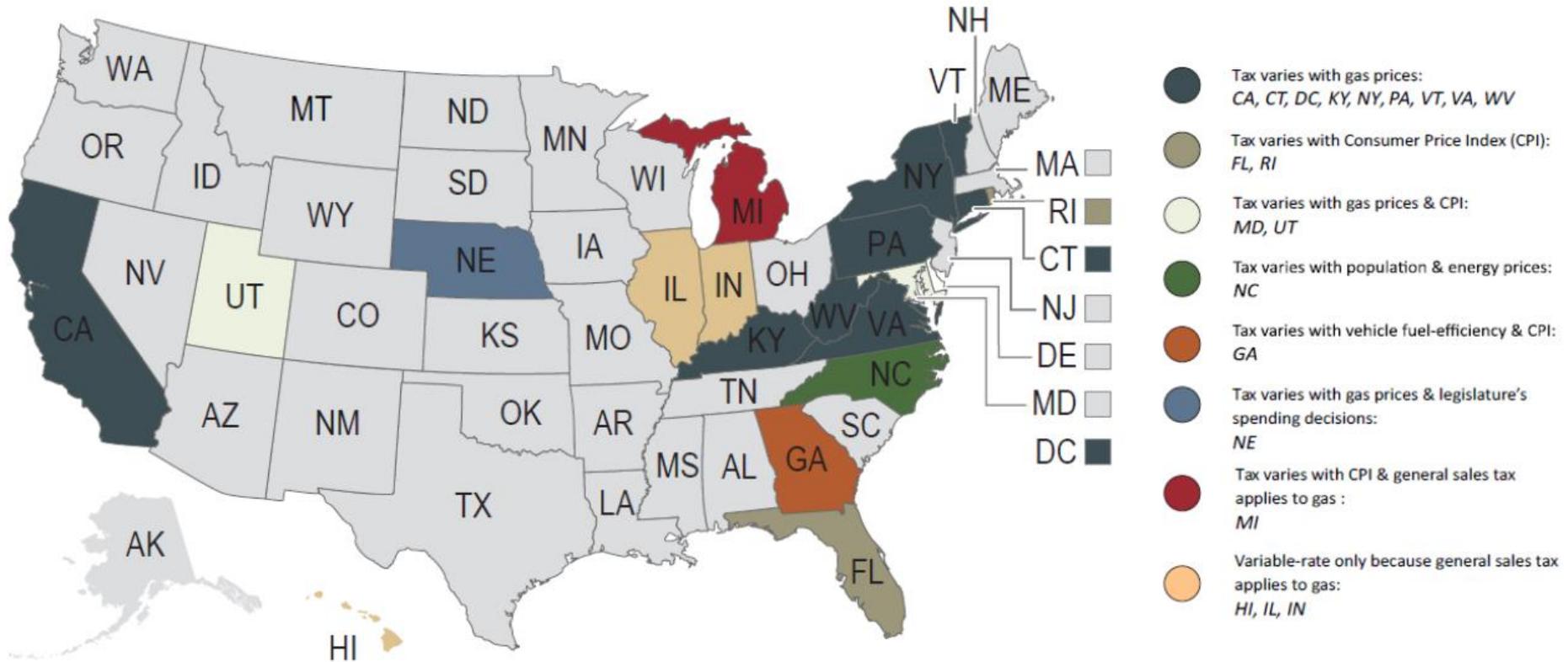
1. Georgia (2013)
2. Michigan (2015)
3. North Carolina (2015)
4. Vermont (2013)

Source: Institute on Taxation and Economic Policy (ITEP), October 2016

Designing Variable-Rate Gas Taxes: 3 Key Decisions

1. What **economic factors** should be used to adjust the tax rate?
2. **When / how often** should the rate be adjusted?
3. How should potential **volatility** in the tax rate be managed?

19 States Levy Some Type of Variable-Rate Gasoline Tax



Institute on Taxation and Economic Policy, February 2016

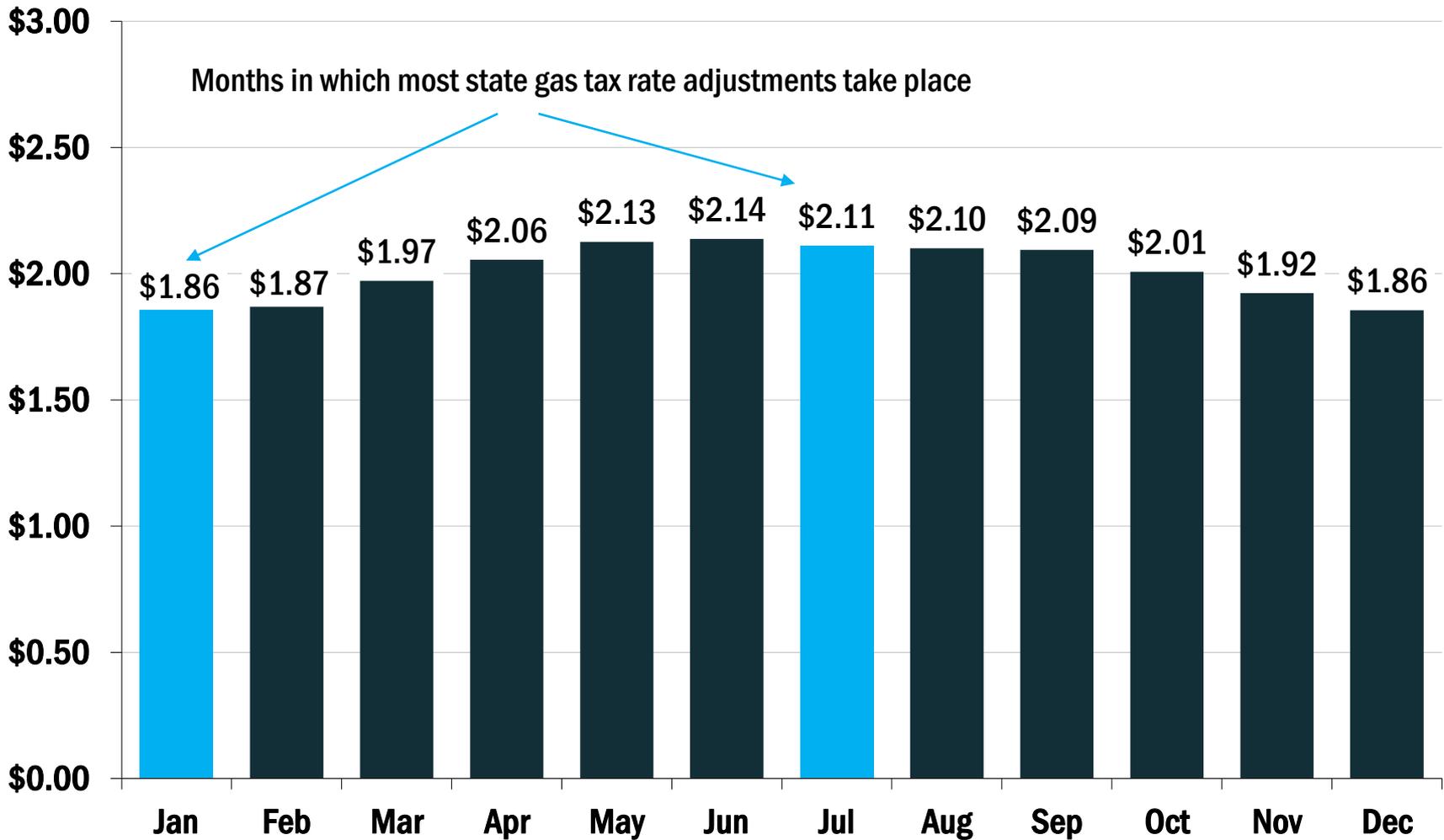
Frequency of Gasoline Tax Rate Adjustments

- **Ongoing (5 states):** CA*, CT, HI, IL, MI*
- **Monthly (1 state):** IN
- **Quarterly (1 states):** VT
- **Twice Per Year (2 states + DC):** NE, VA, DC
- **Yearly (11 states):** CA*, FL, GA, KY, MD, MI*, NY, NC, PA, UT, WV
- **Every Two Years (1 state):** RI

*California and Michigan each levy an annually-adjusted excise tax *and* a general sales tax linked to each gallon's actual purchase price.

Source: Institute on Taxation and Economic Policy (ITEP), October 2016

Average Retail Price of Regular Gasoline, 1991-2016



Source: Analysis of data from the U.S. Energy Information Administration (EIA) by the Institute on Taxation and Economic Policy

10 States (and DC) Have Minimum Rates, or “Floors,” Built Into their Variable-Rate Taxes

Floors Tied to the Price of Fuel

1. **Vermont** (tax due @ \$1.98/gallon | tax due @ \$3.35/gallon)
2. **Kentucky** (tax due @ \$2.177/gallon)
3. **West Virginia** (tax due @ \$2.34/gallon)
4. **Utah** (tax due @ \$2.45/gallon, indexed to inflation)
5. **District of Columbia** (tax due @ \$2.94/gallon)
6. **Pennsylvania** (tax due @ \$2.99/gallon)
7. **Virginia** (tax due @ \$3.17/gallon)

Other Floors

1. **Florida** (6.9 cent tax rate for one component of tax)
2. **Maryland** (no reduction allowed in portion of tax linked to inflation)
3. **Michigan** (no reduction allowed in portion of tax linked to inflation)
4. **Rhode Island** (32 cent tax rate for entire tax)

7 States (and DC) Limit Year-to-Year Changes in their Variable-Rate Taxes

Percentage Limits

1. **Kentucky** (increase/decrease limited to 10% per year)
2. **Maryland** (increase limited to 8% per year for CPI component of tax)
3. **Michigan** (increase limited to 5% per year for CPI component of tax)
4. **New York** (increase/decrease limited to 5% per year)
5. **West Virginia** (increase/decrease limited to 10% per year)
6. **District of Columbia** (increase/decrease limited to 10% per year)

Other limits

1. **Nebraska** (increase limited to one cent per gallon every six months)
2. **Utah** (calculation relies on a 3-year average of fuel prices rather than a single year average, which tends to be more volatile)

3 Recommendations for Variable-Rate Gas Tax Design

1. **Inflation and fuel economy** improvements are the two major causes of lost purchasing power. Indexing the tax rate to both of these factors (as Georgia does) can prevent future erosion of this tax.
2. **January** is a better month than July for tax rate adjustments to take place.
3. **Volatility** should be managed with a tax rate floor and a limit on year-over-year changes in the tax rate.

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